A strong rebound is projected for Saint Lucia’s tourism sector, driving economic growth and poverty reduction. However, debt rollover risks will remain elevated if substantial consolidation measures are not implemented. High public debt also crowds out private investment. Early adoption of a fiscal rule, supported by reductions in fiscal deficits and improvements in public financial management will help the government improve financing access and create fiscal space for social programs and infrastructure projects with high social and economic returns.

**Key conditions and challenges**

With a population of around 180,000, SLU is a small open economy, highly dependent on tourism. Natural disasters and the effects of climate change cause frequent and significant socio-economic losses. Prior to COVID-19, economic growth had been volatile and relatively low, averaging around 1.5 percent between 2010-2019. About 1 in 4 Saint Lucians were poor in 2019 (based on projections and using the $6.85 international poverty line and 2017 Purchasing Power Parity (PPP)). The pandemic made the situation worse. The poor and vulnerable groups include female-headed households with small children, the elderly, and people living in hazard-prone communities and depressed rural and urban areas.

Public debt is high, leaving limited fiscal space to provide public services and finance key development projects. Tax revenue in SLU has been lower than in similar economies as a result of more generous tax incentives, especially in the tourism sector. The absence of an FRF to anchor multi-year planning and prioritization of the limited fiscal resources weaken market confidence and borrowing conditions. To reduce poverty, support growth and build climate resilience, it will be critical to address key structural challenges, including improving the efficiency of public spending to build space for much-needed investment, mobilizing revenue collection, raising the capacity of the tax administration, strengthening the fiscal framework, increasing private access to finance and addressing large skill mismatches.

**Recent developments**

Economic activity rebounded strongly in 2021 and early 2022, driven by a buoyant tourism sector, as well as public and private investment which have revitalized the construction sector, more than compensating for the contraction in the agricultural sector as a result of Hurricane Elsa in July 2021. Rebounding economic activities are expected to have created jobs and increased incomes, bringing down unemployment from its record high of 24 percent in the second half of 2020. Despite these positive developments, phone survey data collected by the World Bank and UNDP in December 2021 suggests that employment remained below pre-pandemic levels. Moreover, women were experiencing more difficulties than men in returning to work, exacerbating pre-existing gender gaps in the labor market. Recovery in tourism exports narrowed the external deficits in 2021 and 2022, attenuating the negative impacts of increased import prices. Tourism and commodity exports volumes have improved significantly since late 2021, helping to bring down the current account deficit, while increases in fuel prices and higher import demand from the gradual pick-up in domestic activities are exerting pressure in the opposite direction. Remittances and foreign direct investment...
(FDI) have remained robust and helped finance the external deficit. International reserves increased to 3.6 months of imports in 2021 from 3.0 months in 2020.

Inflation rose to 2.4 percent in 2021 and further accelerated in early 2022, owing to the economic recovery and increased import prices. High inflation has put pressure on living costs, especially for the most vulnerable. Data collected throughout the pandemic reveals that food security has been worse among low-income and vulnerable households. The Caribbean COVID-19 Food Security & Livelihoods Impact Survey shows an increase of moderate and severe food insecurity by 3 p.p. from February 2021 to 43 percent of respondents in February 2022.

The fiscal deficit narrowed in 2021 but remained elevated at 6.5 percent of GDP. The improvement was mainly driven by the recovery in tax revenue from international trade and domestic activities. Total expenditure increased marginally by 0.5 percent due to higher procurement costs and the supportive measures continued into 2021, for the health-related spending and capital projects to boost economic activity. Despite the high fiscal deficit, public debt declined in 2021 as a share of GDP, thanks to the higher increase in nominal GDP. The government continued to face significant financing constraints in 2021, with gross financing needs at around 24 percent of GDP, and increased overdrafts and arrears to domestic suppliers. Pressures on the spending side extend into early 2022, as the government announced measures to mitigate the impact of inflation, including subsidizing the prices of cooking gas, fuel, rice, and sugar.

### Outlook

The recovery is expected to continue, driven by rebounding tourism and a robust construction sector, revitalized by large infrastructure projects and major hotel and entertainment projects. The recovery will expand employment and support a gradual reduction in poverty to its pre-pandemic level of about 25 percent by 2024. Inflation is expected to rise in 2022 to around 5.6 percent, significantly above SLU’s historical average of 1.8 percent, but ease gradually over the medium term. Consistent with medium-term economic recovery and falling import prices, the current account balance is projected to improve and return to surplus by 2024.

The projected high growth will marginally reduce public debt to around 90 percent of GDP by 2024. Risks to debt sustainability remain elevated. The continuous recovery in tax revenue will compensate for the 8.5 percent increase of total spending and narrow the fiscal deficit in 2022. In 2023 and 2024, the fiscal balance is projected to decline owing to the rolling-back of support measures but will remain in deficit if additional consolidation measures are not implemented. Gross financing needs will remain at around 20 percent of GDP over the medium-term. Risks are tilted to the downside. A deceleration in economic growth in the main tourism source countries, tightening financial conditions, and natural disasters can hamper economic growth, and poverty reduction and increase the fiscal deficit. This would further constrain the government’s ability to finance social programs and needed investments in physical and human capital accumulation to spur long-term growth and climate resilience. Continued socio-economic impacts from the pandemic, compounded by pre-existing vulnerabilities and heightened uncertainties, call for measures to improve safety nets and economic resilience of the population.

### TABLE 2 Saint Lucia / Macro poverty outlook indicators

[Table showing data for various indicators such as Real GDP growth, Inflation, Fiscal Balance, etc., for the years 2019 to 2024.]